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## Argentina

## Tobacco and Products

## Annual

## 2004

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**Report Highlights:**

Argentine tobacco production for MY2004 (January-December) is expected to attain a record high. This is a result of larger planted area, based on good returns and strong demand, and favorable weather. Total exports for MY2004 are forecast at 79,000 tons, at about the same level as those of MY2003. However, Burley exports should increase, while flue cured shipments should drop. Domestic consumption for MY2004 is forecast to remain the same as last year.

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## Section I. Situation and Outlook

### Production

Argentine tobacco exports for MY 2004 are projected at 79,000 tons, practically the same as last year, despite a significant increase in production. Tobacco demand in MY2003 was strong, with practically all tobacco, except stocks of cigarette manufacturers, sold and shipped to the world market. Good grower prices and the prospect of strong international demand for 2004 encouraged growers to expand planted area significantly. With the exception of Tucuman, which underwent a drought, weather was favorable, resulting in good yields and leaf quality.

Burley exports for MY2004 are forecast at 32,700 tons, significantly higher than those of MY2003. All burley produced in the province of Misiones is expected to be sold and shipped by the end of MY2004. Buying will end in May. So far, quality has been reported to be above average. Burley from the province of Misiones continues to be considered one of the best in the world. The main markets will likely be the U.S., Belgium and other European countries. The average FOB price in 2003 for strip was US\$2.88 per kilo, but dealers expect an increase of about 5 percent in 2004. Burley for Tucuman province is primarily marketed domestically, although some is also exported. In MY2003, roughly 1,600 tons of strip were exported at an average FOB price of US\$2.66. Exports in MY2004 are expected to drop, as output has been severely reduced, and quality has been below average.

Exports of flue cured for MY2004 are projected at 42,200 tons, lower than those of MY2003. Despite greater production, significant export surpluses are expected to be rolled over to next year. Dealers state that there will be a strong demand for full flavor tobacco, but filler quality will be exported at a slower pace. Several countries have had large crops and this will affect the pace of exports. The 2003 FOB price of flue cured strip in the provinces of Salta and Jujuy averaged US\$2.50 per kilo, and an increase of 5-7 percent is expected for MY2004. These higher prices reflect a good quality product as well as the increase in prices paid to growers. The main markets for Argentine flue cured will be Germany, the U.S., Belgium and Paraguay, which purchases lower quality strip. Other European countries are also important destinations for local flue cured.

Argentina is forecast to continue exporting large volumes of cut rug, tobacco conditioned for cigarette manufacturing. Exports in MY2003 totaled 6,600 tons, of which 5,500 tons were shipped to Paraguay. These exports are something relatively new; as the cooperative in Jujuy developed this business with cigarette manufacturers in neighboring Paraguay. Most of the tobacco used is flue cured. The two local cigarette manufacturers also export some cut rug to their sister companies in Uruguay and Venezuela. Cut rug exports are not included in tobacco exports since they are considered to be a processed product, and therefore, reflected in the domestic consumption.

In MY2002, in the face of a severe economic crisis, the Argentine Government (GOA) implemented export taxes in order to collect much needed revenues to finance domestic programs. Petroleum, grains, and oilseeds, the country's main exports, were hit the highest, and tobacco exports were taxed at 10 percent. Lately there has been a rumor that the GOA might lower the tax on tobacco to 5 percent, but many in the sector doubt this will be done.

Argentine tobacco production for MY2004 is expected to attain the record high of 154,000 metric tons. Processors have already received most of this tobacco, since the buying season goes roughly from December through May for the two most important types of tobacco produced locally. Tobacco buyers have been somewhat surprised at the high output, a result of growers' expanded plantings and good weather in most of the tobacco-producing provinces.

Jujuy and Salta are the two main provinces which produce flue- cured tobacco, with about 1,600 producers, while Misiones and Tucuman are the burley producers, with roughly 18,000 producers. Tucuman's production for MY2004 was originally projected at 15,000 tons, but drought throughout the season and soil- borne diseases reduced production by half, and affected the quality. The following table shows the planted area and production per type of tobacco of the last three crop years:

Product	Area (Hectares)			Production (Mtons)		
	2002	2003	2004	2002	2003	2004
Flue cured	32,500	35,000	40,800	73,100	70,300	88,600
Burley	26,500	30,000	37,000	50,500	38,800	54,200
DASC	5,700	6,500	7,500	7,200	5,200	9,500
Light air c.	800	600	900	1,600	1,600	2,000
Total	65,500	72,100	86,200	132,400	115,900	154,300

Growers have experienced several successive seasons with good returns. This relative prosperity is reflected in the growth in planted area, and in investments. New equipment and machinery, curing barns, storage capacity, etc. can be seen throughout the tobacco producing regions. Although there are great discrepancies in terms of production costs,, growers of flue- cured tobacco who use a high level of technology spend about US\$3,800 per hectare. Based on 2004 estimated prices, which should be roughly at US\$2.0 per kilo (including the Special Tobacco Fund support, the GOA subsidy to tobacco growers), growers could receive US\$5,000 per hectare, with net earnings of US\$1,200 per hectare. Although the level of investment in a tobacco operation is very high, there is practically no production alternative with such good profitability. This situation will complicate the planting of MY2005, when growers will want to continue to expand production, while dealers will face an increased world supply of tobacco, thanks to forecast production increases in Brazil and other countries.

After last year's bad result due to weather problems, burley producers in Misiones province will make a good profit this year, as a result of better yields and higher prices (7-10 percent). Production in this province is expected to grow 10 percent annually over the next 2-3 years.

The following table shows 2003 prices in pesos per kilo and what is expected for 2004 (current exchange rate is 2.9 pesos per dollar):

	Buyer 2004	STF* 2004	Total 2004	Total 2003	Dif. 2004/03
Flue cured					
Salta	4.15	1.80	5.95	5.53	7.6%
Jujuy	3.92	1.70	5.62	5.20	8.1%
Burley					
Misiones	3.40	1.70	5.10	4.84	5.4%
Tucuman	2.32	1.60	3.92	4.47	-12.3%

\* Special Tobacco Fund - Estimate

Most people believe Argentina will not produce genetically modified (GM) tobacco, at least over the next few years. In fact, there were some trials taking place, but they have been suspended.

In order to increase much needed revenues, in April, the GOA announced an increase in cigarette taxes to collect US\$450 million per year. Local cigarette manufacturers agreed with

the GOA not to change the tax structure and promised that, by means of price increases, they would collect the extra amount. Since then, cigarette prices initially increased by 30 percent and then fell somewhat, but new increases are expected in the near future to comply with the commitment which the manufacturers had made to the GOA. Under this situation, the Special Tobacco Fund is expected to increase significantly to US\$120 million. Therefore, despite a significant production increase, the grower price support is estimated to increase roughly 7 percent per kilo.

Tobacco consumption for MY2004 is placed at a level similar to that of MY2003. Cigarette sales increased in the first three months of 2004, but after the price increases in April, sales have dropped off somewhat. More than 6,000 tons of cut rug exported are included under domestic consumption.

Ending stocks for MY2004 are forecast to grow. Assuming that stocks held by cigarette manufacturers, are drawn down, on average, over a period of 12 months, several thousand tons of flue cured, as well as some burley from Tucuman, are not likely to be exported this year.

## Section II. Statistical Tables

PSD Table							
Country	Argentina						
Commodity	Tobacco, Unmfg., Total				(HA) (MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Area Planted	65500	65500	72100	72100	0	86200	(HA)
Beginning Stocks	26400	52000	27400	51200	29600	34200	(MT)
Farm Sales Weight Prod	127500	132400	116000	115900	0	154300	(MT)
Dry Weight Production	106000	110100	97700	97000	0	128000	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	2000	2200	1500	1500	0	1400	(MT)
TOTAL Imports	2000	2200	1500	1500	0	1400	(MT)
TOTAL SUPPLY	134400	164300	126600	149700	29600	163600	(MT)
Exports	75700	80600	61000	78400	0	79000	(MT)
Dom. Leaf Consumption	29300	30300	34500	35600	0	35700	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	2000	2200	1500	1500	0	1400	(MT)
TOTAL Dom. Consumption	31300	32500	36000	37100	0	37100	(MT)
TOTAL Disappearance	107000	113100	97000	115500	0	116100	(MT)
Ending Stocks	27400	51200	29600	34200	0	47500	(MT)
TOTAL DISTRIBUTION	134400	164300	126600	149700	0	163600	(MT)

PSD Table							
Country	Argentina						
Commodity	Tobacco, Unmfg., Burley				(HA) (MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Area Planted	0	26500	0	30000	0	37000	(HA)
Beginning Stocks	0	17500	0	14600	0	11500	(MT)
Farm Sales Weight Prod	0	50500	0	38800	0	54200	(MT)
Dry Weight Production	0	40400	0	31000	0	43300	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	0	400	0	400	0	400	(MT)
TOTAL Imports	0	400	0	400	0	400	(MT)
TOTAL SUPPLY	0	58300	0	46000	0	55200	(MT)
Exports	0	34400	0	24000	0	32700	(MT)
Dom. Leaf Consumption	0	8900	0	10100	0	10100	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	0	400	0	400	0	400	(MT)
TOTAL Dom. Consumption	0	9300	0	10500	0	10500	(MT)
TOTAL Disappearance	0	43700	0	34500	0	43200	(MT)
Ending Stocks	0	14600	0	11500	0	12000	(MT)
TOTAL DISTRIBUTION	0	58300	0	46000	0	55200	(MT)

PSD Table							
Country	Argentina						
Commodity	Tobacco,Unmfg.,Flue Cured				(HA) (MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Area Planted	0	32500	0	35000	0	40800	(HA)
Beginning Stocks	0	27200	0	29600	0	20000	(MT)
Farm Sales Weight Prod	0	73100	0	70300	0	88600	(MT)
Dry Weight Production	0	64000	0	61600	0	77200	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	0	600	0	1000	0	500	(MT)
TOTAL Imports	0	600	0	1000	0	500	(MT)
TOTAL SUPPLY	0	91800	0	92200	0	97700	(MT)
Exports	0	41700	0	48700	0	42200	(MT)
Dom. Leaf Consumption	0	19900	0	22500	0	23000	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	0	600	0	1000	0	500	(MT)
TOTAL Dom. Consumption	0	20500	0	23500	0	23500	(MT)
TOTAL Disappearance	0	62200	0	72200	0	65700	(MT)
Ending Stocks	0	29600	0	20000	0	32000	(MT)
TOTAL DISTRIBUTION	0	91800	0	92200	0	97700	(MT)